

**HART AREA PUBLIC LIBRARY
OCEANA COUNTY, MICHIGAN**

FINANCIAL STATEMENTS

MARCH 31, 2005

Auditing Procedures Report

Issued under P.A. 2 of 1988, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Hart Area Public Library	County Oceana
Audit Date 3/31/05	Opinion Date 7/20/05	Date Accountant Report Submitted to State: 8/10/05	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGR).			✓

Certified Public Accountant (Firm Name) Hendon & Slate, P.C.			
Street Address 711 West Main Street	City Fremont	State MI	Zip 49412
Accountant Signature <i>John DeKunper, CPA</i>			Date 8/10/05

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HART AREA PUBLIC LIBRARY

Library Board

<u>Appointed Official</u>	<u>Position</u>
Nancy Sterk	President
Valerie Johnson	Vice-President
Todd Metzler	Treasurer
Kay Butcher	Secretary
Sue Powers	Trustee
Michael VanBergen	Trustee
Todd Comstock	Trustee
Douglas Springstead	Trustee

Administration

Joan T. Lundborg	Library Director
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HS & Companies



Hendon & Slate, P.C.
CERTIFIED PUBLIC ACCOUNTANTS
BUSINESS CONSULTANTS



Library Board
Hart Area Public Library
Hart, MI 49420

Independent Auditor's Report

We have audited the accompanying basic financial statements of the Hart Area Public Library as of and for the year ended March 31, 2005 as listed in the accompanying table of contents. These financial statements are the responsibility of the Hart Area Public Library Board. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Hart Area Public Library as of March 31, 2005, and the changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The required supplemental information listed in the table of contents as supplemental information is presented for purposes of additional analysis and is not a required part of the basic financial statements of Hart Area Public Library. This information has been subjected to the procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

The management discussion and analysis included in the table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements of Hart Area Public Library. We did not examine this data and, accordingly, do not express an opinion thereon.

As discussed in Note A, the Library adopted Governmental Accounting Standards Board Statement Number 34 during the current year. As a result, these financial statements present entirely new financial information. Governmental activities report information by individually significant fund, as well as in total on the full accrual basis of accounting.

Hendon & Slate, P.C.

Hendon & Slate, P.C.
Certified Public Accountants
July 20, 2005

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**HART AREA PUBLIC LIBRARY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
MARCH 31, 2005**

Using this Annual Report

This annual report consists of three parts – *management's discussion and analysis* (this Section), the *basic financial statements*, and *required supplementary information*. The Basic Financial Statements include information that presents two different views of the Library:

- Notes A through H of the financial statements include information on the Library's General Fund under the modified accrual method. These Notes focus on current financial resources and provide a more detailed view about the accountability of the Library's sources and uses of funds.
- Notes I through M of the financial statements include information required for reporting under the full-accrual method.
- Note M of the financial statements represents adjustments necessary to convert the fund financial statements to the government-wide financial statements under the full-accrual method.
- Note M provides both long-term and short-term information about the Library's overall financial status. The statement of net assets and the statement of activities provide information about the activities of the Library as a whole and present a longer-term view of the Library's finances. These statements tell how these services were financed in the short-term as well as what remains for future spending.

The financial statements also include *notes* that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the information in the financial statements.

Condensed Financial Information

The table below provides key financial information in a condensed format for the current year (in future years, when prior year information is available, a comparative analysis of government-wide data will be presented):

	<u>2005</u>
Current Assets	\$ 500,296
Capital Assets	<u>1,554,653</u>
Total Assets	2,054,949
Long-term Debt	885,000
Other Liabilities	<u>9,587</u>
Total Liabilities	<u>894,587</u>
Net Assets:	
Invested in Capital Assets, Net of Debt	669,653
Restricted	33,857
Unrestricted	<u>456,852</u>
Total Net Assets	<u>\$ 1,160,362</u>

Management's Discussion and Analysis (Continued)

Revenue:	
Property Taxes	\$ 190,046
State Sources	10,468
Penal Fines	58,448
Other	<u>43,118</u>
Total Revenue	\$ 302,080
Expenses – Library Services	<u>302,572</u>
Changes in Net Assets	\$ <u>(492)</u>

The Library as a Whole

- The Library's net assets decreased by \$492 in the current year. The decrease is primarily due to revenue from pledges receivable being recorded in a prior year.
- The Library's primary sources of revenue are property taxes and penal fines, which represent 67% of General Fund revenues.
- Depreciation expense for the current year represented 29% of the Library's total expenses.
- Salaries and payroll taxes are a significant expense of the Library, representing 27% of the total expenditures.
- Interest expense increased to represent 14% of total Library expenses due to additional interest on the \$950 thousand dollar capital lease entered into in February 2003 to finance the new Library building.
- General Fund fund balance saw an increase of \$7,079.
- The General Fund revenues are basically equivalent to the expenditures, resulting in only a small increase in fund balance.

The Library's Fund

Our analysis of the Library's major fund is included in Pages 6 and 7 in the first column of the respective statements. The fund column provides detailed information about the most significant fund – not the Library as a whole. The Library Board has the ability to create separate funds to help manage money for specific purposes, and to maintain accountability for certain activities, such as special property tax millages. The Library's major fund consists solely of the General Fund.

The fund balance of the General Fund increased during the year by \$7,079; however, cash decreased by approximately \$12,000 due to the expenditures involved with the new building. The increase was in line with the final amended budget.

Library Budgetary Highlights

Over the course of the year, the Library Board amended the budget to take into account events that occurred during the year. The most significant amendments occurred in Buildings & Additions.

The increase in the budgeted amount for Buildings & Additions was the result of additional furnishings.

Capital Assets and Debt Administration

At the end of the fiscal year, the Library had over \$1.9 million invested in building, furniture and equipment, computers, and books and materials. The Library added over \$38,000 in new collections items consisting of new books and periodicals, various audio/visual materials, and the music collections, as well as nearly \$90,000 in building and improvements, over \$12,000 in land improvements, and nearly \$12,000 in computers, furniture, and equipment.

No debt was issued during the fiscal year. The Library's indebtedness totaled \$885,000 at March 31, 2005.

Management's Discussion and Analysis (Continued)

Economic Factors and Next Year's Budgets and Millage Rates

The original Millage authorized for library operations was 2.0 mills per thousand dollars of taxable value. After adjustment for the Headlee rollback, the actual 2005 millage rate is 1.9578.

The Library has budgeted for 2005-2006 with the expectation that donations would be significantly less than 2004-2005. The reduction in revenues has been offset by the reduction in Building and Additions expenditures. The Library is concerned about decreasing revenues from Penal Fines and State Aid.

HART AREA PUBLIC LIBRARY

Governmental Funds Balance Sheet/Statement of Net Assets March 31, 2005

	General Fund	Adjustments*	Statement of Activities
Assets			
Cash	\$ 370,335	\$ -	\$ 370,335
Due From Other Governmental Units	28,010	-	28,010
Pledges Receivable	-	101,951	101,951
Capital Assets, Net of Accumulated Depreciation	-	1,554,653	1,554,653
Total Assets	\$ 398,345	\$ 1,656,604	\$ 2,054,949
Liabilities and Fund Equity			
Liabilities			
Accounts Payable	7,748	-	7,748
Deferred Revenue	1,839	-	1,839
Long-Term Liabilities:			
Capital Lease, Due Within One Year	-	35,000	35,000
Capital Lease, Due After One Year	-	850,000	850,000
Total Liabilities	9,587	885,000	894,587
Fund Balance/Net Assets			
Fund Balances			
Unreserved, Undesignated	328,657	(328,657)	-
Unreserved, Designated	26,244	(26,244)	-
Reserved	33,857	(33,857)	-
Total Fund Balances	388,758	(388,758)	-
Total Liabilities and Fund Balances	\$ 398,345		
Net Assets:			
Invested in Capital Assets, Net of Related Debt		669,653	669,653
Unrestricted		456,852	456,852
Restricted		33,857	33,857
Total Net Assets		\$ 1,160,362	\$ 1,160,362

*Notes to the Financial Statements provide the details for main components of the adjustments

The Notes to the Financial Statements are an integral part of this statement.

HART AREA PUBLIC LIBRARY

Statement of Governmental Revenue, Expenditures, and Changes in Fund Balance/Statement of Activities March 31, 2005

	<u>General Fund</u>	<u>Adjustments*</u>	<u>Statement of Activities</u>
Revenue			
Local Sources			
Taxes	\$ 190,046	-	\$ 190,046
Contract Fees	19,214	-	19,214
Penal Fines	58,448	-	58,448
Interest	4,754	-	4,754
Fines	3,136	-	3,136
Donations - Memorials	1,063	-	1,063
Building Fund	79,367	(68,400)	10,967
Refunds/Reimbursements	2,157	-	2,157
Copy Fees	1,928	-	1,928
Other	(101)	-	(101)
Total Local Sources	360,012	(68,400)	291,612
State Sources			
State Aid	9,224	-	9,224
Shared Revenue	1,244	-	1,244
Total Revenues	10,468	-	10,468
Total Revenues	370,480	(68,400)	302,080
Expenditures			
Salaries and Wages	89,528	-	89,528
Payroll Taxes	8,209	-	8,209
Acquisitions - Books, Periodicals, AV & Special	38,098	(38,098)	-
Utilities and Telephone	20,567	-	20,567
Repairs and Maintenance	4,351	-	4,351
Insurance	6,766	-	6,766
Supplies	9,303	-	9,303
Education	1,666	-	1,666
Tax Tribunal Refunds	782	-	782
Professional and Contracted Services	25,141	-	25,141
Printing & Publishing	876	-	876
Capital Lease - Principal	35,000	(35,000)	-
Capital Lease - Interest	39,990	-	39,990
Buildings & Additions	81,492	(73,715)	7,777
Equipment	1,595	(1,595)	-
Depreciation	-	87,579	87,579
Miscellaneous	37	-	37
Total Expenditures	363,401	(60,829)	302,572
Excess Revenue Over (Under) Expenditures	7,079	(7,571)	(492)
Fund Balance/Net Assets April 1	381,679	779,175	1,160,854
Fund Balance/Net Assets March 31	\$ 388,758	\$ 771,604	\$ 1,160,362

*Notes to the financial statements provide the details for main components of the adjustments.

The Notes to the Financial Statement are an integral part of this statement.

HART AREA PUBLIC LIBRARY

Notes to the Financial Statements
March 31, 2005

NOTE A NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Hart Area Public Library conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the significant accounting policies:

In June 1999, the GASB issued Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. Certain of the significant changes in the Statement include the following:

- A Management's Discussion and Analysis (MD&A) section providing an analysis of the Library's overall financial position and results of operation.
- Financial statements prepared using full accrual accounting for all of the Library's activities.
- A change in the fund financial statements to focus on the major funds.

These and other changes are reflected in the accompanying financial statements (including notes to the financial statements).

1. REPORTING ENTITY

Hart Area Public Library was organized in 1967 to provide services for the City of Hart, Hart Township, Eldridge Township, Golden Township and Weare Township. In 1977, the Library was re-established as a District Library when the City of Hart and Hart Township filed resolutions under Public Act 164. The Library's Board consists of eight board members appointed by the City of Hart and Hart Township. The Hart Area Public Library is a separate reporting entity.

The financial Statements include all activities of the Library. There are no governmental department, agencies, institutions, commissions, public authorities or organizations within the Library, which its appointed officials may exercise oversight responsibility, that have been excluded. Oversight responsibility is considered to be derived from the Library's power and includes, but is not limited to, financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations and accountability for fiscal matters.

Also using the same criteria above, the Library's financial statements include the accounts of all Library operations.

2. BASIS OF PRESENTATION

The Library's basic financial statements include both government-wide (reporting the Library as a whole) and fund financial statements (reporting the Library's major funds).

Government-Wide Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. The statement of net assets includes and

Notes to the Financial Statements (Continued)

recognizes all long-term assets and receivables as well as long-term debt and obligations. The Library's net assets are reported in three parts – invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

The effect of interfund activity has been eliminated from the government-wide financial statements. Also, there are no fiduciary funds included in the government-wide statements.

Fund Financial Statements

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Library considers revenue to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when the payment is due.

Property taxes, State Shared Revenue, Penal Fines and interest are considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. Grants and similar awards are recognized as revenue as soon as all eligibility requirements imposed by the grantor or provider have been met. Deferred revenues arise when resources are received by the Library before it has met all of the eligibility requirements imposed by the grantor or provider.

The Library reports the following major governmental funds:

General Fund - This fund is used to account for all financial transactions not accounted for in another fund, including the general operating expenditures of the local unit. Revenues are derived primarily from intergovernmental revenues.

3. CAPITAL ASSETS

Capital Assets are defined by the Library as assets with an initial cost of more than \$1,000. Such assets are recorded at historical cost or estimated historical cost. Donated assets are reported at estimated fair market value at the date of donation. Additions, improvements, and other capital outlays that significantly extend the useful life on an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis not below 15% of the original value over the following estimated useful lives:

Building and Improvements	30 Years
Furniture and Office Equipment	10 Years
Computers and Peripheral Equipment	5 Years
Library Books and Materials	5 Years

4. PROPERTY TAXES

Property taxes are levied on December 1st based on the taxable valuation of the property as of the preceding December 31st. Taxes are considered delinquent on March 1st of the following year. The Townships and City bill and collect the property taxes.

5. CASH AND CASH EQUIVALENTS

The Library's cash and cash equivalents are considered to be cash on hand, demand deposits and short term investments, if any, with original maturities of three months or less from date of acquisition.

Notes to the Financial Statements (Continued)

6. USE OF ESTIMATES

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

7. COMPENSATED ABSENCES (VACATION AND SICK LEAVE)

It is the Library's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. There is no liability for unpaid accumulated sick leave or vacation pay since the Library does not have a policy to pay any amounts when employees separate from service with the Library.

8. LONG-TERM OBLIGATIONS

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognized bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources, while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

9. FUND EQUITY

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designation of fund balance represents tentative management plans that are subjective to change.

NOTE B DEPOSITS

Legal or Contractual Provisions for Deposits and Investments. The Michigan Political Subdivisions Act No. 20, Public Acts of 1943, as amended through December 31, 1997, states the Library by resolution, may authorize the Treasurer to invest surplus funds in one or more of the following:

1. Bonds, securities and other obligations of the United States or an agency or instrumentality of the United States.
2. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution, but only if the financial institution complies with subsection (2).
3. Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.
4. Repurchase agreements consisting of instruments listed in subdivision (a).
5. Bankers' acceptances of United States banks.
6. Obligations of this state or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than one standard rating service.
7. Mutual funds registered under the Investment Company Act of 1940, Title I of Chapter 686, 54 Stat. 789, 15 U.S.C. 81a-1 to 801-3 and 80a-4 to 80a-64, with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation. However, a mutual fund is not disqualified as a permissible investment solely by reason of either of the following:

Notes to the Financial Statements (Continued)

- a. The purchase of securities on a when-issued or delayed delivery basis.
 - b. The ability to lend portfolio securities as long as the mutual fund receives collateral all times equal to at least 100% of the securities loaned.
 - c. The limited ability to borrow and pledge a like portion of the portfolio's assets for temporary or emergency purposes.
8. Obligations described in subdivisions (a) through (g) if purchased through an interlocal agreement under the Urban Cooperations Act of 1967, 1967 (Ex Sess) PA 7, MCL 124.501 to 124.512.
 9. Investment pools organized under the surplus funds Investment Pool Act, 1982 PA 367, 129.111 to 129.118.
 10. The investment pools organized under the local government Investment Pool Act, 985 PA 121, MCL 129.141 to 129.150.

The Library funds are held at Huntington Bank, Fifth Third Bank, West Shore Bank, and Shelby State Bank and are carried at cost and consisted of the following:

	<u>Carrying Value</u>	<u>Market Value</u>
General Fund		
Cash on Hand	\$ 50	\$ -
Checking-Huntington	12,123	15,407
Checking-Fifth Third	38,286	38,286
Money Market-Huntington	69,605	72,165
Money Market- Fifth Third	162,171	162,171
CD's - Huntington	5,079	5,079
CD's - West Shore Bank	60,376	60,376
CD's - Shelby State Bank	<u>22,645</u>	<u>22,645</u>
Total Deposits	<u>\$ 370,335</u>	<u>\$ 376,129</u>
FDIC Insured	138,509	141,793
Uninsured	50	-
Money Market Funds	<u>231,776</u>	<u>234,336</u>
Total Deposits	<u>\$ 370,335</u>	<u>\$ 376,129</u>

Investments are normally categorized to give an indication of the level of risk assumed by the Library; however, money market funds are not categorized because they are not evidenced by securities that exist in physical or book entry form. Management believes the investments in the funds comply with the investment authority noted above.

NOTE C DUE FROM OTHER GOVERNMENTAL UNITS/DEFERRED REVENUE

Receivables at March 31, 2005 consisted of the following:

Crystal Township	\$ 2,048
City of Hart	9,115
Hart Township	<u>16,847</u>
Total Due from Other Governmental Units	<u>\$ 28,010</u>

Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for revenue that are not considered to be available to liquidate liabilities of the current period. Governmental funds

Notes to the Financial Statements (Continued)

also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	<u>Unavailable</u>	<u>Unearned</u>
State Aid	\$ <u>-</u>	\$ <u>1,839</u>

NOTE D RISK MANAGEMENT

The Library is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries, as well as medical benefits provided to employees. The Library maintains commercial insurance coverage for each of those risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to the Library. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

NOTE E STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

The General Fund is under formal budgetary control. The budget shown in the financial statements for this fund was prepared on a basis not significantly different from the modified accrual basis used to reflect actual results and consists only of those amounts contained in the formal budget approved and amended by the Board.

P.A. 621 of 1978, Section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated. During the year ended March 31, 2005, the Library did not incur material over-expenditures.

In the body of the financial statements, the Library's actual expenditures and budgeted expenditures for the budgetary fund has been shown on a functional basis. The approved budget for this budgetary fund was adopted at the line item level.

NOTE F ENDOWMENT FUND

The Community Foundation for Muskegon County holds an endowment fund which has been earmarked for Hart Area Public Library. The fund was created by a \$10,000 donation from a donor to the endowment during 2003. The value of this fund at March 31, 2005 was \$13,813.

NOTE G CONTINGENT LIABILITY

During 2003, the City of Hart Building Authority entered into an agreement with a contractor for the construction of a new Library. During 2004, a problem with the HVAC system was discovered which is still being addressed as of March 31, 2005. Due to this problem, the Building Authority is still holding \$10,000 from the contractor until it is resolved.

NOTE H SIMPLE IRA PENSION PLAN

Description of plan - Beginning January 1, 2005, the Library began offering a Simple IRA plan through American Funds to eligible employees. To become eligible, the employee must have at least six months of employment and a minimum salary of \$5,000.

Funding Policy and Annual Cost - The obligation to contribute to and maintain the system for these employees was established by the Library's personnel policy, which does not require employees to contribute to the plan. The Library will contribute a match of up to 3%. Contributions totaling \$572 were made over the three month period beginning January 1, 2005 to March 31, 2005.

Notes to the Financial Statements (Continued)

NOTE I FUND EQUITY

Reserved Fund Balances – Reserves of fund equity represent portions of fund equity not appropriated for expenditure or legally segregated for specific future use.

Designated Fund Balances – Designations of equity are used to show the amounts within unreserved equity which are intended to be used for specific purposes but are not legally restricted.

The changes in the reserved and designated fund balances are as follows:

	Balance 4/01/04	Revenues	Expenses	Balance 3/31/05
Reserved Fund Balances				
Memorials – Robinson	\$ 5,380	\$ 54	\$ -	\$ 5,434
Building Fund	5,422	88,791	65,790	28,423
Designated Fund Balances				
Capital Improvements	6,681	90	-	6,771
Stabilization	19,213	260	-	19,473
Total Reserved and Designated Fund				
Balances	<u>\$ 36,696</u>	<u>\$ 89,195</u>	<u>\$ 65,790</u>	<u>\$ 60,101</u>

NOTE J CAPITAL ASSETS

A summary of capital asset activity for the fiscal year ended March 31, 2005 follows:

	Balance 4/1/2004	Additions	Retire/ Reclass	Balance 3/31/2005
Capital Assets				
Building & Improvements- (Construction in Progress)	\$ 1,184,908	\$ 90,116	\$ -	\$ 1,275,024
Computer & Peripheral Equipment	121,297	1,595	-	122,892
Furniture & Office Equipment	110,859	10,281	-	121,140
Land Improvements	-	12,120	-	12,120
Library Books & Materials	<u>386,142</u>	<u>38,098</u>	<u>(5,600)</u>	<u>418,640</u>
Totals at Historical Cost	1,803,206	152,210	(5,600)	1,949,816
Less Accumulated Depreciation for:				
Building & Improvements	-	(33,094)	-	(33,094)
Computer & Peripheral Equipment	(51,121)	(14,111)	-	(65,232)
Furniture & Office Equipment	(2,340)	(9,635)	-	(11,975)
Land Improvements	-	(191)	-	(191)
Library Books & Materials	<u>(258,883)</u>	<u>(30,548)</u>	<u>4,760</u>	<u>(284,671)</u>
Total Accumulated Depreciation	<u>(312,344)</u>	<u>(87,579)</u>	<u>4,760</u>	<u>(395,163)</u>
Capital Assets, Net	<u>\$ 1,490,862</u>	<u>\$ 64,631</u>	<u>\$ (840)</u>	<u>\$ 1,554,653</u>

Depreciation expense charged to the General Fund for the year was \$87,579.

Notes to the Financial Statements (Continued)

NOTE K CHANGES IN LONG-TERM DEBT

Building Construction

The City of Hart Building Authority ("Lessee") will construct and equip for approximately \$950,000 a building to be located on property owned by the Lessor. The City of Hart and Lessee have entered into a Full Faith and Credit general Obligation Lease Contract whereby the City will lease the facility from the Building Authority.

Capital Lease

On January 29, 2003, the City of Hart and the Hart Area Public Library entered into an agreement whereby the Hart Area Public Library agreed to sublease the facilities as described above to be used for the legitimate public purpose of providing library services to the jurisdictional boundaries of the City. The Library promises to pay semi-annual lease payments to the City in an amount at all times to provide a sum sufficient to allow the City to make the semi-annual cash rental payments to the Building Authority. The Library pledges its limited tax, full faith and credit, general obligation to the payment of the rentals pursuant to the sublease, subject to the statutory and constitutional limits on the taxing power of the Hart Area Public Library. At the end of the lease term, the building and land will revert to the District.

Outstanding Debt

A summary of the Library's long-term debt outstanding at March 31, 2005 is as follows:

	Balance 4/1/2004	Net Borrowings (Payments)	Balance 3/31/2005	Amounts Due Within One Year
Capital Lease – due in annual installments Of \$35,000 to \$70,000 through June 2022; Interest payable semiannually at 3.5% to 5.0%	\$ 920,000	\$ (35,000)	\$ 885,000	\$ 35,000
Total Long-Term Debt	\$ 920,000	\$ (35,000)	\$ 885,000	\$ 35,000

Debt Requirements

The annual requirements to amortize the debt outstanding at March 31, 2005 including both principal and interest are as follows:

Year Ended March 31	Capital Lease- 2004 Library Building		Total Requirements
	Principal	Interest	
2006	\$ 35,000	\$ 38,240	\$ 73,240
2007	35,000	37,015	\$ 72,015
2008	35,000	35,790	\$ 70,790
2009	40,000	34,477	\$ 74,477
2010	40,000	33,078	\$ 73,078
2011-2015	220,000	140,866	\$ 360,866
2016-2020	280,000	85,068	\$ 365,068
2021-2022	<u>200,000</u>	<u>15,250</u>	<u>\$ 215,250</u>
Total	885,000	419,784	1,304,784
Less: Interest			(419,784)
Present Value of Minimum Lease Payments			<u>\$ 885,000</u>

Notes to the Financial Statements (Continued)

Interest Expense of the Library for the year ended March 31, 2005 amounted to \$ 39,990.

NOTE L PLEDGES RECEIVABLE

Pledges receivable represent amounts pledged on a specific date to be received by the Library over a period of more than one year. These funds are reported as revenues in the period received under the modified accrual method of accounting. In the government-wide financial statements, the revenue would be reported in the first year of the pledge and the receivable reduced for the amounts received each year (using the full-accrual method of accounting.)

General Public

Pledges receivable represent unconditional promises to give by donors. Current pledges receivable are expected to be collected during the next performance year. As of March 31, 2005, the expected cash receipts of pledges receivable is \$77,301.

Governmental Units

In 2004, Hart Area Public Library entered into an agreement with local townships using the Library facilities to help with the cost of the new building. Two townships agreed to pay a set amount per year for 20 years.

	General Public	Governmental Units		Total
		Crystal	Weare	
Balance of Promise to Give, April 1, 2004	\$144,251	\$ 14,400	\$ 11,700	\$ 170,351
Amount Received in 2005	<u>66,950</u>	<u>(800)</u>	<u>(650)</u>	<u>(68,400)</u>
Balance 2005	<u>\$ 77,301</u>	<u>\$ 13,600</u>	<u>\$ 11,050</u>	<u>\$ 101,951</u>

NOTE M RECONCILIATION OF FUND FINANCIAL STATEMENTS TO GOVERNMENT-WIDE FINANCIAL STATEMENTS

Total fund balance and the net change in fund balance of the Library's governmental fund differs from net assets and statement of the governmental activities reported in the statement of net assets and statement of activities. This difference primarily results from the long-term economic focus of the statement of net assets and statement of activities versus the current financial resources focus of the governmental fund balance sheet and statement of revenue, expenditures, and change in fund balance. The following are reconciliation of fund balance to net assets and the net change in fund balance to the net change in net assets:

Total Fund Balance- Modified Accrual Basis	\$ 388,758
Amounts reported in the statement of net assets are different because:	
Pledges receivable are reported as income in the year of the pledge for full accrual reporting.	101,951
Capital Assets are not financial resources, and are not reported in the funds	1,554,653
Long-term liabilities are not due and payable in the current period and are not reported in the funds	<u>(885,000)</u>
Net Assets of General Fund- Full Accrual Basis	<u>\$ 1,160,362</u>

Notes to the Financial Statements (Continued)

Net change in Fund Balances – Modified Accrual Basis	7,079
Amounts reported in the statement of activities are different because:	
Pledges received in the current year were previously reported as income for full accrual reporting.	(68,400)
Capital outlays are reported as expenditures in the statement of revenue, expenditures, and changes in fund balance; in the statement of activities, these costs are allocated over their useful lives as depreciation:	
Library books and materials	38,098
Capital Outlay	75,310
Depreciation	(87,579)
Repayments of bond principal are reported as an expenditure in the fund Statements, but not in the statement of activities (where it reduces long-term debt)	<u>35,000</u>
Change in Net Assets of General Fund – Full Accrual Basis	<u>\$ (492)</u>

HART AREA PUBLIC LIBRARY

Required Supplementary Information Budgetary Comparison Schedule - General Fund For the Year Ended March 31, 2005

	Originally Adopted Budget	Final Amended Budget	Actual	Favorable (Unfavorable)
Revenues				
Local Sources				
Taxes	\$ 175,000	\$ 180,495	\$ 190,046	\$ 9,551
Contract Fees	18,388	17,966	19,214	1,248
Penal Fines	58,000	58,449	58,448	(1)
Interest	6,000	4,060	4,754	694
Fines	3,000	3,136	3,136	-
Donations- Memorials	-	1,063	1,063	-
Building Fund	40,000	78,568	79,367	799
Refunds/Reimbursements	1,000	2,157	2,157	-
Books Sold	500	-	-	-
Copy Fees	1,200	1,928	1,928	-
Other	<u>1,950</u>	<u>(101)</u>	<u>(101)</u>	-
Total Local Sources	305,038	347,721	360,012	12,291
State Sources				
State Aid	6,567	7,376	9,224	1,848
Shared Revenue	<u>1,245</u>	<u>1,244</u>	<u>1,244</u>	-
Total State Sources	<u>7,812</u>	<u>8,620</u>	<u>10,468</u>	<u>1,848</u>
Total Revenues	312,850	356,341	370,480	14,139
Expenditures				
Salaries & Wages	87,000	89,528	89,528	-
Payroll Taxes	7,300	8,209	8,209	-
Acquisitions - Books	23,000	22,460	22,460	-
Periodicals	4,500	4,554	4,554	-
Audio-Visual	7,000	7,086	7,086	-
Special	1,000	3,998	3,998	-
Utilities & Telephone	18,000	20,567	20,567	-
Repairs & Maintenance	5,500	3,952	4,351	(399)
Insurance	7,500	6,576	6,766	(190)
Supplies - Collection Main	3,000	2,809	2,809	-
Supplies - Computer	500	416	416	-
Supplies - Office	3,000	3,535	3,535	-
Supplies - Postage	1,500	2,025	2,025	-
Supplies - Promotional	1,000	518	518	-
Education	800	1,666	1,666	-
Tax Tribunal Refunds	300	782	782	-
Professional & Contracted Services	24,300	24,618	25,141	(523)
Printing & Publishing	500	876	876	-
Bond Debt	75,000	74,990	74,990	-
Miscellaneous	150	37	37	-
Buildings & Additions	60,000	81,492	81,492	-
Equipment	<u>2,000</u>	<u>1,595</u>	<u>1,595</u>	-
Total Expenditures	<u>332,850</u>	<u>362,289</u>	<u>363,401</u>	<u>(1,112)</u>
Excess Revenues Over (Under) Expenditures	(20,000)	(5,948)	7,079	13,027
Fund Balance - April 1	<u>20,000</u>	<u>5,948</u>	<u>381,679</u>	<u>375,731</u>
Fund Balance - March 31	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 388,758</u>	<u>\$ 388,758</u>

H&S Companies



Hendon & Slate, P.C.
CERTIFIED PUBLIC ACCOUNTANTS
BUSINESS CONSULTANTS



August 10, 2005

Library Board
Hart Area Public Library
Oceana County, Michigan

Dear Board Members:

In connection with our audit of Hart Area Public Library as of and for the year ended March 31, 2005, we offer the following comments and recommendations.

Books and Records

We again commend the director and treasurer for the excellent condition which the library accounting records were again presented in this year.

GASB 34

This year, your financial statements will be reported using the changes required under GASB 34. The most significant change you will notice is the layout of the financial statements and the recording of capital assets as part of net assets, and depreciation against operating income. Also included in your financial statement is the Management's Discussion and Analysis which provides information regarding your current status and future goals. In future years, when prior information is available, a comparative analysis will be made to provide you with more useful information.

Bonuses

We noted that the Library has been paying bonuses to the staff. Generally, governmental units are not allowed to issue bonuses. Governmental units are only allowed to pay amounts authorized by statute. Unless part of the initial salary determination, bonuses are not authorized by statute. We recommend that the Library Board consider if the bonuses are in the initial salary determination. If the bonuses are not included, then the Board should approve the bonuses at the same time as the initial salary (for example, Position X will be paid at \$6 per hour plus a \$25 Christmas bonus).

We appreciate the courtesy extended to us during the course of the audit including the prompt attention to our inquiries. If you have any questions regarding the above matters or the enclosed audited financial statements, please let me know. We look forward to continuing to serve the Hart Area Public Library.

Respectfully submitted,

Jodi DeKuiper CPA
Jodi DeKuiper, CPA
Hendon & Slate, P.C.

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